



# SMALL BUSINESS RESTAURANTS SUCCEED WITH **ONE FAIR WAGE**

A California and New York  
Comparative Analysis

APRIL 2023



**S**mall business restaurants in New York are struggling to find staff in what is currently the worst staffing crisis in the industry's history. Over 500 small business restaurants in New York have raised wages for tipped workers in order to recruit staff, and over 100 restaurants have joined forces with workers calling for the New York State legislature to pass pending policy to end the subminimum wage for tipped workers.<sup>1</sup> **This brief compares the experience of small businesses and minority and women-owned business enterprises (MWBE's) in New York, a subminimum wage state, and California, a state which requires all restaurants to pay One Fair Wage — a full minimum wage with tips on top.**



New York allows restaurant owners to pay a subminimum wage for tipped workers, a wage system that is a direct legacy of slavery.<sup>2</sup> The subminimum wage has been a source of both economic instability and sexual harassment for a New York workforce that is overwhelmingly women and disproportionately women of color and single mothers for decades.<sup>3</sup> With the pandemic, the subminimum wage for tipped workers became unlivable, with a majority of workers reporting that their tips decreased and harassment increased.<sup>4</sup> When they were asked to enforce COVID protocols on the same customers from whom they had to get tips, millions of workers started leaving the industry. New York has lost more workers than any other state in the United States; one in 10 workers has left the industry nationally, and one in five has left in New York.<sup>5</sup> A

large majority of workers say they are leaving due to low wages and tips, and 80 percent say they would only return if provided a full, livable wage with tips on top.

Meanwhile, California is one of seven states (including OR, WA, NV, MN, MT, and AK) that requires all restaurant owners to pay a full minimum wage with tips on top.<sup>6</sup> This brief provides evidence on how small business restaurants, including MWBE's, have succeeded in California when compared to New York restaurants, with regard to sales, job growth, small business growth rates, MWBE rates, and the staffing crisis.

## **1 | RESTAURANT SALES IN ONE FAIR WAGE STATES V. NEW YORK**

The seven states that require employers to pay the full minimum wage to tipped workers with tips on top have maintained thriving restaurant industries with higher restaurant sales than states with a subminimum wage.<sup>7</sup> Restaurant sales growth is higher in states that require employers to pay the full minimum wage to tipped workers than it is in states that allow the subminimum wage for tipped workers. Restaurant sales in One Fair Wage





states grew by 17 percent, according to 2017–2018 restaurant trade lobby estimates, compared to 15.6 percent in subminimum wage states. California, a One Fair Wage state, had the highest restaurant sales, topping over \$97 billion, reflecting an annual restaurant sales increase of 18 percent.<sup>8</sup>

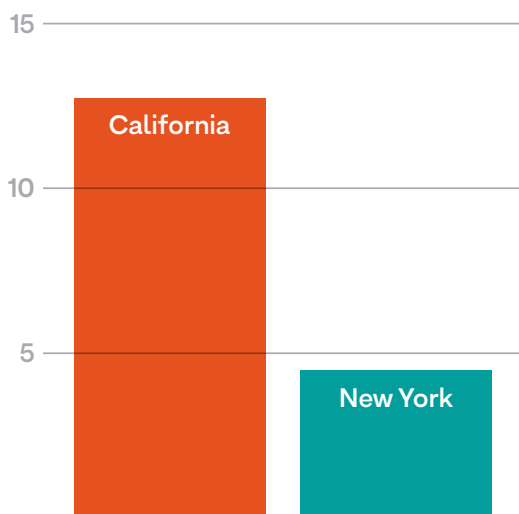
Richard Versotek, the CFO of Denny’s, told shareholders in a 2021 quarterly analyst call that Denny’s CA had ‘outperformed the system’ — with higher growth in Denny’s CA than any other state — because they pay a full minimum wage with tips on top in California, and therefore consumer spending is higher.

## 2 | RESTAURANT INDUSTRY JOB GROWTH, INCLUDING IN SMALL BUSINESSES, IN CALIFORNIA V. NEW YORK

States that require employers to pay the full minimum wage to tipped workers with tips on top have higher average full-service restaurant employment growth rates and higher small business restaurant employment growth rates than the states with subminimum wages. Full-service restaurant employment (FSRE) in One Fair Wage states grew by 6.71 percent between 2016–19, compared to a FSRE increase of only 4.9 percent in states that have a subminimum wage. Small business employment in One Fair Wage states grew by 8.37 percent, while employment in small businesses in states with a subminimum wage grew by only 5.95 percent between 2016–2019.<sup>9,10</sup>

FIGURE 1

California v. New York Small Business Growth Rate as a Percent Since January 2020



Source: Opportunity Insights Economic Tracker.

## 3 | SMALL BUSINESS RESTAURANT GROWTH IS HIGHER IN CALIFORNIA THAN IN NEW YORK

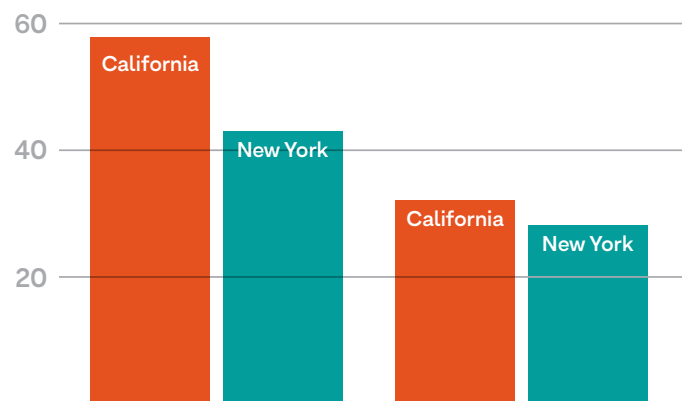
California has had a larger small business growth rate in the restaurant industry than New York. California has experienced a 12.9 percent increase in small business restaurants, compared to a 4.5 percent increase in small business restaurants in New York since January 2020.<sup>11</sup>

#### 4 | CALIFORNIA HAS A HIGHER PERCENTAGE OF MWBE RESTAURANTS THAN NEW YORK

- ◆ In California, 58 percent of restaurants are people of color-owned businesses, compared to only 43 percent of restaurants in New York.<sup>12</sup>
- ◆ Women own 32 percent of restaurants in California, compared to 28 percent of restaurants that are women-owned in New York.<sup>13</sup>

FIGURE 2

MWBE Restaurants in California v. New York



Source: National Restaurant Association. (March 2022). Restaurant Owner Demographics Data Brief.

#### 5 | THE RESTAURANT STAFFING CRISIS CONTINUES IN BOTH CALIFORNIA V. NEW YORK

- ◆ The seven states that require a full minimum wage with tips on top have one half the rate of sexual harassment in the restaurant industry as the states that pay a subminimum wage for tipped workers.<sup>14</sup> In subminimum wage states, tipped restaurant workers have struggled with twice the poverty rate of other workers and the highest rates of sexual harassment of any industry because they must tolerate inappropriate customer behavior to feed their families in tips.<sup>15,16</sup>
- ◆ With the pandemic, the subminimum wage for tipped workers changed from an economic, race and gender injustice to one of life and death. Nearly 70 percent of workers report their tips have decreased by at least half because sales were down.<sup>17</sup> Meanwhile, customer hostility, health risks and harassment increased, with women tipped workers being asked to remove their masks so men could judge their looks and their tips on that basis.<sup>18</sup> Tipped workers were put in the impossible situation of having to enforce COVID protocols on the same restaurants from whom they had to get tips to survive.
- ◆ Over 1 million workers left the restaurant industry during the pandemic; 70 percent reported that low wages was the primary driver of exodus. Of those who remain, over half (53 percent) of all workers surveyed by One Fair Wage reported that they are considering leaving their restaurant job and more than three quarters (76 percent) say they are leaving due to low wages and tips. The vast majority of all respondents (78 percent) reported that having a full, stable, livable wage with tips on top would make them consider staying at their job.<sup>19</sup>

## ENDNOTES

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- 3 One Fair Wage. (May 2021). It's a Wage Shortage, Not a Worker Shortage: Why Restaurant Workers, Particularly Mothers, are Leaving the Industry, and What Would Make Them Stay.
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- 5 U.S. Bureau of Labor Statistics and Federal Reserve Bank of St. Louis, All Employees: Leisure and Hospitality: Full-Service Restaurants in New York [SMU-36000007072251101SA], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/SMU36000007072251101SA>, April 10, 2023.
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- 19 Ibid.